INFO	LOG-00	EEB-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DODE-00	DOEE-00	DOTE-00	DS-00	EXIM-01	OIGO-00	E-00
	FAAE-00	FBIE-00	VCI-00	FRB-00	H-00	TEDE-00	INR-00
	IO-00	ITC-01	LAB-01	MOFM-00	MOF-00	M-00	VCIE-00
	DCP-00	NSAE-00	ISN-00	NSCE-00	OMB-00	NIMA-00	PM-00
	GIWI-00	SCT-00	ISNE-00	FMPC-00	SP-00	IRM-00	SSO-00
	SS-00	STR-00	BBG-00	IIP-00	PMB-00	DSCC-00	PRM-00
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E.O. 12958: DECL: 09/30/2019
TAGS: PREL ECON LH
SUBJECT: BUDGET CUTS AFFECT THE GOL IN A VARIETY OF WAYS

REF: A. VILNIUS 482
¶B. VILNIUS 336
¶C. VILNIUS 171
¶D. VILNIUS 166
¶E. VILNIUS 135
¶F. VILNIUS 97
¶G. VILNIUS 95
¶H. 2008 VILNIUS 1045

Classified By: Charge d'Affaires, a.i., DLEADER for reasons 1.4 (b) and (d).

SUMMARY

¶1. (C) The GOL has cut planned public expenditures three times in the last year and will make cuts to social benefits as well in the coming months. These cuts, combined with the GOL's anti-crisis action plan and decisions by both the President's office and the parliament to limit their respective expenditures, have spread the pain of the present financial crisis across the GOL. Cuts to Lithuania's more comprehensive version of Social Security, SODRA, and its variety of social benefits appear unavoidable because of the strain on the budget. Such cuts could reverse increases to SODRA benefits that have been in existence for a relatively short period of time. The government's drastic budget cuts have shown its ability to take tough decisions, enabling it to maintain access to international credit markets. Nonetheless, the government could be forced to seek IMF assistance eventually. To date there has been little public protests of the budget cuts, and the government continues to express its commitment to key U.S. priorities, such as Lithuania's leadership of a PRT in Afghanistan.

WHAT WAS CUT

¶2. (U) Lithuania began 2009 with a 31.2 billion LTL (about 13 billion USD) national budget (covering all ministries as well as national funds disbursed to municipalities). By July government cuts had decreased the budget to 29.4 billion LTL (12.25 billion USD). Without EU funds, the national budget would have shown a decrease from 25.7 billion LTL (10.8 billion USD) at the beginning of 2009 to 23 billion LTL (9.6 billion USD) in July. The GOL cut planned public expenditure three times in the last year and will have a fourth round of cuts in the autumn.

¶3. (U) The first budget cut took place in December 2008 during the government transition from PM Kirkilas to PM Kubilius. Working from a draft budget proposed by Kirkilas's Social Democrats, the Kubilius government approved a 2009 budget with 1.2 billion litas (500 million USD) in spending cuts.

¶4. (U) In May 2009, the Seimas (parliament) approved additional spending cuts of 3.05 billion litas (1.2 billion USD). The cuts impacted public sector wages, infrastructure expenses, and a limited range of social welfare benefits (these fall mostly outside of the national budget but are included in Lithuanian social security or SODRA). In July 2009, expenditures were reduced by a further 242 million litas (101 million USD).

¶5. (SBU) In addition to budget cuts, Lithuania instituted an anti-crisis action plan in January 2009 that included cuts that are still being implemented, including a decrease of 12 percent to federal and municipal salary expenditures along with 15 percent cuts to the operational budgets of state and municipal institutions (reftel H). Jekaterina Rojaka, CEO Advisor at DnB Nord Bank, told us that most GOL ministries implemented payroll cuts included in the anti-crisis plan by not filling open positions. Thus, in the first half of 2009, GOL pay did not decline at the same rate as their private counterparts. Nonetheless, the cuts instituted in May will begin to be reflected in statistics for public sector pay for the third quarter and thereafter, according to Rojaka. On average, Rojaka estimated that rank and file employees will see a cut of ten percent in their pay. For senior officials, Director level and above, Rojaka estimates that the cuts from the anti-crisis plan combined with that from May equates to a greater than 25 percent decrease in pay.

ALL PARTS OF THE GOL BEAR PAIN

¶6. (C) Below, listed in alphabetical order, is a list of GOL ministries and the effect of budget cuts on their operations, as related by embassy contacts within the ministries.

AGRICULTURE: The ministry began the year with a budget of 2.3 billion litas (958 million USD) which was reduced only slightly to 2.287 billion litas by August (953 million USD). The budget for salaries was cut from approximately 44.9 million LTL (19 million USD) to 41.5 million LTL (17 million USD), the Agricultural Administration Development/Improvement Program saw its budget cut about 14 percent and the biofuel program was cut about 25 percent.

CULTURE: The Culture Ministry saw an overall budget reduction of 15 percent with capital allocations decreased by 21 percent and personnel expenses by 3.3 percent. Public art support shrank by 12 percent, libraries saw a 50 percent cut in funding, funds for restoration and preservation of national patrimony shrank by 37 percent, while funds for grants to artists and musicians remained static.

DEFENSE: The Ministry of Defense is suffering from a greatly depleted budget, with projections for next year even worse. The ministry's budget has been cut by 14 percent or 163.3 million LTL (68 million USD) since December, with air force programs reduced by 22 percent, land forces funding by seven percent, military operations by 8.5 percent and special operations forces funding by 12.5 percent. The initial 2009 defense budget of 1.2 billion LTL (485 million USD) was already a reduction in absolute terms of nearly 7 percent from 2008 (although it was a slightly higher percentage of GDP). In April the budget was revised down to 1.0 billion LTL (422 million USD), a real decrease of 19 percent from the 2008 budget; with that cut the defense budget now equals approximately 1 percent of GDP. The actual amount the ministry will receive by the end of the year will likely be several million LTL lower than that projection.
Measures the ministry has taken to address the budget cuts include: canceling virtually all procurement that was not

already under contract by the beginning of the year; negotiating extended payment and delivery plans for equipment already under contract; reducing the number of soldiers recruited during the year from a planning target of about 500 to an actual number of about 100; cutting officer and civilian pay; requiring all personnel to take two weeks of unpaid leave; non-renewal of service contracts for some officers; divestiture of several ministry-owned commercial companies deemed not directly related to military objectives; cutting training to a point where there is little beyond that required to certify troops for overseas missions; minimizing participation in international training events; minimizing foreign schooling for military personnel; reducing flying hours for pilots to conserve fuel and reduce aircraft maintenance costs; closing at least two foreign Defense Attache Offices; and ending a platoon-level deployment to Kosovo.

At this point ministry officials tell us the defense budget is adequate only for survival, and the ministry is struggling to maintain current capabilities, with little view to increasing competencies in the near future. The top priority is maintaining the Afghanistan mission, with the NATO Reaction Force and European Battle Group commitments just behind. Other priorities are maintaining host nation support for allies conducting the Baltic Air Policing mission, conducting air and maritime surveillance of Lithuanian territory, and maintaining search and rescue capabilities. The impact of the budget cuts is a derailed transformation process, an undermanned military, a declining readiness level, and reduced capability to deploy and sustain forces for international operations. Our DAO predicts that if funding increases in 2011-2012 are not implemented, there will be long-term damage to readiness, as equipment and maintenance shortfalls get worse, and personnel, particularly in leadership positions, do not get the training and experience they need to face future challenges.
ECONOMY: Unlike other ministries, Economy saw an increase in its budget due to the inclusion of EU funds, from a January budget of 788.2 million litas (328 million USD) to 1.3 billion litas (542 million USD). Economic Development policy programs saw a 22 percent decline in funding while Economic Growth and Competitiveness saw a 70 percent increase. Unfortunately, initiatives such as the national stimulus plan, for which the ministry holds significant responsibility, show little real benefit on the ground with many private sector interlocutors expressing ignorance or skepticism in regards to the effectiveness so far of GOL economic stimulus measures.

EDUCATION AND SCIENCE: The GOL reduced teachers' salaries by about 4.7 percent. Layoffs have not yet taken place but plans are in the works to reduce staff, mostly those who have already reached retirement age, in 2010. Ministry employees saw their wages drop by about 15 percent since January 2009. Minister Steponavicius has said that wage increases for employees under his ministry's purview will not be considered before 2011.

ENERGY: This was a newly recreated ministry that began operations in February 2009, created from the offices that had pertinent functions within the Ministry of the Economy. The Ministry is still housed in the same building as the Ministry of the Economy and began the year with a budget of 612 million LTL (255 million USD) and saw its budget cut to 246 million LTL (103 million USD). One ministry interlocutor told us that salary cuts have not had a large effect on work because the ministry began with a dearth of personnel that has not been corrected. Vice Minister Romas Svedas said that the ministry is concentrating only on energy priorities for the Baltic region and will leave responsibility for non-Baltic geopolitical energy issues, such as Nabucco and other central Asian energy projects, to the Foreign Ministry.

ENVIRONMENT: The ministry began 2009 with a budget of 243 million LTL (101 million USD). By July 2009 the ministry's budget had been reduced to 190 million LTL (79 million USD). One interlocutor from the ministry told us that that the

ministry is still implementing cuts such as a 50 percent reduction in the Common Environmental program, which covers climate change issues as well as other environmental initiatives. This contact also said his salary had been reduced by 30 percent since January. They added that many of the ministry staff recently received layoff notices and there is a major restructuring planned for December 16. As we have heard elsewhere, employees are more concerned about surviving budget cuts than getting their jobs done.

FINANCE: The ministry began 2009 with a budget of about 6 billion LTL (2.5 billion USD). The budget was cut to about 5.9 billion LTL (2.45 billion USD) in July 2009. Most of the finance ministry's budget covers programs not directly related to ministry operations, such as transfers of funds to municipalities, payments to the EU, and debt management. The ministry has cut about 30 positions this year and its operating budget of 109 million LTL (45 million USD) was cut by about 26 million LTL (11 million USD) or 23 percent. Daiva Kamarauskiene, the head of the ministry's budget department, told us that budget cuts have dramatically decreased ministry participation in training abroad as well as other business trips.

FOREIGN AFFAIRS: The Ministry started 2009 with a budget of 227.8 million litas (95 million dollars). In August, the budget was reduced by 10 percent. Salaries have been cut, on average, by eight percent. The foreign policy program implementation budget has been cut by 20 percent and the diplomatic service administration program budget by nine percent. Layoffs have taken place and ministry employees have been required to take unpaid leave. Ministry interlocutors told us compensation for overseas service has been cut by 20 percent, business trip allowances by 30 percent, representational funds by 50 percent and overseas accommodation funds by 20 percent. Simonas Satunas, Deputy Director of the Transatlantic Cooperation and Security Department, told the Charge that he expected a 25 percent cut in the MFA's operations budget next year and predicted the results would be "apocalyptic" for operations. Satunas has a personal perspective on the cuts as he will be soon begin work as a Transatlantic Diplomatic Fellow at the Department of State and due to budget limitations will be living in the Lithuanian embassy's attic. Minister of Foreign Affairs Usackas was quoted in the press as saying that the 2010 budget for the MFA required Lithuania's diplomats to function in the 21st century with a 20th century budget.

HEALTH: The Ministry appears to be treating the budget cuts as an opportunity to streamline its operations, including cutting staff. In September 2009, the Ministry will merge the National Drug Storehouse with the Center for Extreme Situations, with a resulting cut in 21 positions of the 100 present in both institutions. Wages for ministry staff have been reduced approximately 15 percent.

INTERIOR: Salary cuts have been wide and varied, with Vice Ministers losing 32 percent of their wages, Department Heads 12 percent, Division Heads 24 percent, and Specialists four percent. The ministry has plans to lay off 30 of its employees. The Lithuanian police, who are a part of the ministry, have not been spared either. In 2008, there were limited layoffs of approximately 60 persons due to reorganizations of police coverage. As of July 1, 2009 there were 11,701 police officers with 1,392 openings. The openings will not be filled due to budget limitations. The police saw an eight percent decrease in their budget during ¶2009. Our interlocutors told us they expect a 15.2 percent decrease in the 2010 budget. The Division Chief of the Organized Crime Unit told us that morale among police officers was at an all time low. The Chief said that she hoped the GOL would opt for salary cuts during the next budget contraction rather than layoffs because cuts in the police force would slow down investigations due to fewer officers allocated to a larger case load. Nonetheless, layoffs of up to 900 positions amongst the 75 percent of police who work in criminal investigations and public safety are likely next year due to plans to cut the police budget by

116 million litas (48 million USD). GOL Trafficking in Persons (TIP) efforts in the area of prevention, protection of victims and punishment of traffickers have also been severely affected. In the past, the annual budget for anti-trafficking efforts in the TIP program has been about 400,000 LTL (167,000 USD). For 2009, the budget is zero. For 2010, it is expected to be 87,000 LTL (36,000 USD).

JUSTICE: From January to August, the ministry saw its budget decline by 23 percent, from 96.7 million litas (40 million USD) to 70 million litas (29 million USD). Salaries have been cut, on average, by 14 percent. The ministry laid off 23 employees and one vacant position was eliminated. Program funding has been slashed with monies to improve the legal system declining by 23 percent, training for judges by 16 percent, and IPR protection efforts by 16 percent.

SOCIAL SECURITY AND LABOR: The ministry saw its overall budget drop by 1.7 percent but salaries were reduced by about 13 percent. Pensions and support for children were unchanged but a program to help handicapped persons integrate into general society saw a cut of 11 percent, money to pay for the infrastructure to deliver social services like labor exchange offices was cut by 15 percent, and youth program funding was cut by 20 percent. The ministry may be able to alleviate some of the budget gaps with EU funding.

TRANSPORT AND COMMUNICATIONS: Most ministry employees have experienced 15 percent wage cuts. The overall wage budget was cut 14 percent and property acquisition saw a 40 percent decline. The ministry's Roads Supervision and Development Program that provides for the renovation of roads and streets, prevention of road accidents, safety prevention, etc., experienced a 30 percent budget cut. The ministry anticipates replacing some of the cuts with a 411 million LTL (171 million USD) allocation of 2009-2013 EU structural funds.

¶7. (U) The President's office was not spared budget cuts, with press reporting that President Grybauskaite restructured the office and slashed some privileges for staff to save about 3 million litas (1.25 million USD). Fifteen percent of the jobs in the President's office are being cut, government owned automobile usage has been restricted to trips to and from the office and not for the staffs' commute, employees have been ordered to reduce their mobile telephone usage by a third, promotional spending will be slashed from 2.5 million litas to 557,000 litas (1 million USD to 232,000 USD), and business trips will be cut by a factor of four.

¶8. (U) Parliament as well voted cuts to its salaries on January 20, from an average of 8,000 litas (3,300 USD) per month to 6,800 litas (2,800 USD). The new speaker of the Parliament, Irena Degutiene, proposes to cut monthly parliamentary representational expense funds from 1.7 of Lithuania's monthly average salary, presently 3,693 LTL (1,539 USD), to the level of the average monthly salary (presently 2,173 LTL or about 905 USD).

WHAT MAY BE CUT DURING THE FALL

¶9. (C) In 2007, SODRA (Lithuania's more comprehensive version of Social Security) expended about 9.3 billion LTL (3.9 billion USD). In 2008, this rose to 11.2 billion LTL (4.7 billion USD). If nothing is done to rein in SODRA's expenses, Rojaka estimated it would add a deficit equivalent to 4 percent of GDP. On August 18, Mindaugas Mikaila, Director of SODRA, told us that the agency faced a debt of 380 million litas (158 million USD) for bank loans and 900 million litas (375 million USD) to the GOL budget. Mikaila predicted a debt of 2.2 billion litas (917 million USD) by the end of 2009 if SODRA does not cut its various benefit payments, including maternity and pensions. He predicted a deficit of 3.6 billion litas (1.5 billion USD) if no action is taken next year. Mykolas Majauskas, an economic advisor to the PM, told us on July 24 that the GOL would consider cuts to SODRA's benefits in the fall including benefits for family units with children, working pensioners and maternity

benefits. Press reports that these cuts would likely take effect on January 1, 2011 and be on average, 4-5 percent (excluding proposed cuts to maternity benefits), with a goal of saving 2.5 billion litas (1 billion USD). A cut in maternity benefits was already passed by the parliament but vetoed by President Grybauskaite because it failed to grandfather those beneficiaries who had become pregnant or begun receiving benefits under the more generous system. Grybauskaite proposed and parliament is considering maternity benefits cuts from the current 100 percent of salary in the first year of maternity leave and 85 percent of salary in the second to 90 percent in the first year and 75 percent in the second that would take effect in July of 2010.

YOU HAD IT GOOD

¶10. (C) Generous maternity and increased pension benefits have not been present in Lithuania for a long period of time. Mikaila reminded us that in November 2007 the GOL budget had a 1.3 billion LTL (542 million USD) surplus. After the 2008 budget passed, the parliament increased SODRA allowances including an increase in maternity benefits for recipients from one year at 80 percent of previous salary to two years with 100 percent of previous salary in the first year and 85 percent in the second. This added 800 million LTL (333 million USD) to national expenditure. Parliament also increased pension benefits after the 2008 budget passage with an added cost of 360 million LTL (150 million USD) according to Mikaila.

COMMENT

¶11. (C) The GOL is, undoubtedly, facing some tough but unavoidable choices. The IMF is visiting Lithuania again from September 28 through October 5, following which it may become clearer whether the GOL is moving closer to considering standby financing. Nonetheless, for the moment the GOL plans another Eurobond issue and appears to be able to still borrow domestically, thus it likely will continue to avoid IMF assistance. The wild card remains devaluation, which if it took place could drastically increase the Euro-denominated mortgages of many Lithuanians. This is one important factor in the GOL's wariness of any IMF package that might result in the elimination of the currency board. As for civil unrest, we are not predicting any in the short term, in part because a fair number of Lithuanians have moved their activities into the gray economy: Rojaka estimated up to five percent of the 20.2 percent second quarter GDP contraction may be taking place in the gray zone. In addition, many Lithuanians still enjoy extended family networks and a relatively recent memory of living with limited creature comforts under Soviet rule.

LEADER